

**VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



Virginia Economic Development Partnership
Audited General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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October 30, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the general-purpose financial statements of the **Virginia Economic Development Partnership**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2001. These general-purpose financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Economic Development Partnership as of June 30, 2001, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a separate report dated October 30, 2001 on our consideration of the Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable James S. Gilmore, III
The Honorable Vincent F. Callahan, Jr.
Board of Directors
October 30, 2001
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Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements presented in this Appendix. The other information contained in the annual report is not a required part of the financial statements of the Partnership and has not been subjected to the auditing procedures applied in the audit of the financial statements. We express no opinion on the information provided on the other pages of the report.

AUDITOR OF PUBLIC ACCOUNTS

FINANCIAL STATEMENTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 COMBINED BALANCE SHEET
 As of June 30, 2001

	Governmental Fund Types		Account Groups		Total
	General	Special Revenue	General Fixed Assets	General Long-Term Debt	(Memorandum Only) June 30, 2001
Assets and Other Debits:					
Assets:					
Cash, cash equivalents, and investments (Note 2)	\$ 2,247,536	\$ -	\$ -	\$ -	\$ 2,247,536
Petty cash	201,030	-	-	-	201,030
Employee travel advances	11,502	-	-	-	11,502
Other Receivables	13,645	-	-	-	13,645
Prepaid expenses	48,926	-	-	-	48,926
Due from federal grants	-	6,094	-	-	6,094
Due from other funds	6,094	-	-	-	6,094
Lease deposits (Note 5)	233,829	-	-	-	233,829
Leasehold Improvements, Furniture and Equipment (Note 6)	-	-	2,198,482	-	2,198,482
Other Debits:					
Amount to be provided for compensated absences	-	-	-	645,270	645,270
Amount to be provided for installment purchases	-	-	-	22,573	22,573
Amount to be provided for pension liability	-	-	-	670,864	670,864
Total assets and other debits	\$ 2,762,562	\$ 6,094	\$ 2,198,482	\$ 1,338,707	\$ 6,305,845
Liabilities, Equity, and Other Credits:					
Liabilities:					
Accounts payable	\$ 333,019		\$ -	\$ -	\$ 333,019
Accrued payroll	131,687	-	-	-	131,687
Employee withholdings	894	-	-	-	894
Due to the other funds	-	6,094	-	-	6,094
Compensated absences (Note 1)					
Short term	1,661	-	-	-	1,661
Long term	-	-	-	645,270	645,270
Installment purchases payable (Note 8)	-	-	-	22,573	22,573
Pension liability (Note 9)	-	-	-	670,864	670,864
Total liabilities	467,261	6,094	-	1,338,707	1,812,062
Equity and Other Credits:					
Investment in fixed assets	-	-	2,198,482	-	2,198,482
Fund balances (deficit)-Unreserved	2,295,301	-	-	-	2,295,301
Total liabilities, equity, and other credits	\$ 2,762,562	\$ 6,094	\$ 2,198,482	\$ 1,338,707	\$ 6,305,845

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		Total (Memorandum Only) June 30, 2001
	General	Special Revenue	
Revenues:			
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 21,325,977	\$ -	\$ 21,325,977
Participation fees	574,724	4,533	579,257
Federal Grants	-	6,094	6,094
Mission reimbursements	41,018	-	41,018
Interest revenue	269,109	-	269,109
Other revenue	13,004	-	13,004
Total revenues	22,223,832	10,627	22,234,459
Expenditures:			
Business Development	4,044,332	-	4,044,332
International Trade	2,550,070	4,533	2,554,603
Research	1,713,715	-	1,713,715
Communications and Promotions	5,315,997	-	5,315,997
Community Relations, Policy and Legislation	535,567	6,094	541,661
Technical Services	195,696	-	195,696
Information Systems	1,019,866	-	1,019,866
Presentation Systems	1,124,826	-	1,124,826
Administration	2,600,613	-	2,600,613
Pass-through Payments	2,980,000	-	2,980,000
Total expenditures	22,080,682	10,627	22,091,309
Revenues over (under) expenditures	143,150	-	143,150
Other financing sources (uses):			
Loss on foreign currency	(4,012)	-	(4,012)
Total other financing sources (uses)	(4,012)	-	(4,012)
Revenues and other sources over (under) expenditures and other uses	139,138	-	139,138
Fund balance (deficit), July 1, 2000	2,156,163	-	2,156,163
Fund balance (deficit), June 30, 2001	\$ 2,295,301	\$ -	\$ 2,295,301

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CASH BASIS
 For the Fiscal Year Ended June 30, 2001

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Revenue provided by the General Fund of the Commonwealth	\$ 21,325,977	\$ 21,325,977	\$ -
Participation fees	589,200	574,724	(14,476)
Federal Grants	-	-	-
Mission reimbursements	41,000	41,018	18
Interest revenue	230,000	269,109	39,109
Other revenue	-	1,004	1,004
Total revenues	22,186,177	22,211,832	25,655
Expenditures:			
Business Development	4,929,515	4,097,759	831,756
International Trade	2,689,481	2,568,358	121,123
Research	1,886,777	1,707,451	179,326
Communications and Promotions	5,720,335	5,153,124	567,211
Community Relations, Policy and Legislation	627,248	535,361	91,887
Technical Services	200,853	196,094	4,759
Information Systems	1,038,110	1,023,535	14,575
Presentation Systems	1,193,480	1,125,363	68,117
Administration	2,858,428	2,611,079	247,349
Pass-through Payments	2,980,000	2,980,000	-
Total expenditures	24,124,227	21,998,124	2,126,103
Revenues over (under) expenditures	(1,938,050)	213,708	2,151,758
Other financing sources (uses):			
Loss on foreign currency	-	(4,012)	(4,012)
Total other financing sources (uses)	-	(4,012)	(4,012)
Revenues and other sources over (under) expenditures and other uses	(1,938,050)	209,696	2,147,746
Fund balance, July 1, 2000	1,938,050	2,491,046	552,996
Fund balance, June 30, 2001	\$ -	\$ 2,700,742	\$ 2,700,742

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CASH BASIS
 For the Fiscal Year Ended June 30, 2001

	Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Revenue provided by the General Fund of the Commonwealth	\$ -	\$ -	\$ -
Participation fees	-	10,000	10,000
Federal Grants	35,250	46,810	11,560
Mission reimbursements	-	-	-
Interest revenue	-	-	-
Other revenue	-	-	-
Total revenues	35,250	56,810	21,560
Expenditures:			
Business Development	-	-	-
International Trade	-	11,752	(11,752)
Research	-	-	-
Communications and Promotions	-	-	-
Community Relations, Policy and Legislation	-	6,094	(6,094)
Technical Services	-	-	-
Information Systems	-	-	-
Presentation Systems	-	-	-
Administration	-	-	-
Pass-through Payments	-	-	-
Total expenditures	-	17,846	(17,846)
Revenues over (under) expenditures	35,250	38,964	3,714
Other financing sources (uses):			
Loss on foreign currency	-	-	-
Total other financing sources (uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	35,250	38,964	3,714
Fund balance, July 1, 2000	(35,250)	(45,058)	(9,808)
Fund balance, June 30, 2001	\$ -	\$ (6,094)	\$ (6,094)

The accompanying notes are an integral part of the financial statement

Notes to Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 32 of Title 2.1 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, all funds and account groups of the Partnership are included in the financial statements of the Commonwealth as a part of the reporting entity.

B. Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. All governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. The cash basis of accounting is used during the year; reports are prepared on the modified accrual basis at the fiscal year end.

C. Fund Accounting

The accounts of the Partnership were developed to account for specified financial activities. Resources were allocated to and accounted for in individual funds based upon financing sources. Each fund is an independent fiscal and accounting entity with a set of self-balancing accounts.

- (1) General Fund – Accounts for transactions related to resources received and uses for those services traditionally provided by a state government, which are not accounted for in any other fund.
- (2) Special Revenue Fund– Accounts for transactions related to resources received and used for restricted or specific purposes.

D. Account Groups

Account groups are used to establish accounting control over general fixed assets and long-term liabilities. Fixed assets do not provide current financial resources available for appropriation or expenditure, nor are they assets of a particular fund. Long-term liabilities do not require an appropriation or expenditure during the current accounting period. For these reasons, fixed assets and long-term liabilities are accounted for in self-balancing account groups rather than governmental funds. Fixed assets are recorded in the General Fixed Assets Account Group. Long-term liabilities are recorded in the General Long-Term Debt Account Group.

E. General Fixed Assets

Fixed assets of governmental funds are recorded as expenditures at the time of purchase and are valued at historical cost or estimated historical cost. Donated fixed assets are valued at estimated market value at the date of donation. General fixed assets are comprised of leasehold improvements, furniture, and equipment.

F. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2001. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of the following: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

G. Budgets and Budgetary Accounting

The Partnership's budget was established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2001, which is the first year of the biennium ending June 30, 2002. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 32 of Title 2.1 of the Code of Virginia and expended for purposes as stated in those provisions.

The budget is prepared principally on the cash basis. Since the budgetary (cash) basis differs from generally accepted accounting principles (GAAP), a reconciliation of actual data reported on the cash basis to actual data reported on the GAAP (modified accrual) basis is presented in Note 3.

Budgeted amounts in the financial statements are amounts originally appropriated to the Partnership as adjusted by subsequent appropriations authorized by the General Assembly as presented in Note 4.

H. Total Columns

Total columns on the financial statements are captioned “Total - Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund elimination has not been made in the aggregation of this data.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents represent cash in the Local Government Investment Pool (LGIP) at the Treasury of Virginia, deposits, and over-night repurchase agreements. The LGIP funds are held in pooled accounts and accordingly, are not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and also not categorized as to credit risk.

Repurchase agreements are categorized below to give an indication of the level of credit risk assumed by the Virginia Economic Development Partnership. Credit risk is the risk that the Partnership may not be able to obtain possession of its investment instruments. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Partnership or its safekeeping agent in the Partnership’s name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker’s or dealer’s trust department or safekeeping agent in the Partnership’s name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the Partnership’s name. There are no accounts or investments in categories 1 or 2.

Cash and Cash Equivalents	Category 3	Non- Categorized	Fair Value
Repurchase agreements	\$ 1,583,023	\$ -	\$ 1,583,023
Cash on deposit	-	(1,526,842)	(1,526,842)
Cash with Local Government Investment Pool at Treasury	-	2,191,355	2,191,355
Total cash, cash equivalents, and investments	<u>\$ 1,583,023</u>	<u>\$ 664,513</u>	<u>\$ 2,247,536</u>

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General and Special Revenue Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	General Fund	Special Revenue Fund
Fund balance, budgetary basis, June 30, 2001	\$ 2,700,742	\$ (6,094)
Add: Prepaid expenses	48,926	-
Accrued revenue	12,000	6,094
Deduct: Accrued expenses	(466,367)	-
Fund balance, GAAP basis, June 30, 2001	<u>\$ 2,295,301</u>	<u>\$ -</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation	\$ 21,890,031
Add: Net personal service increases	61,260
Less: Telecommunications, productivity, and management reductions	<u>(625,314)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 21,325,977</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Frankfurt, Germany and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Frankfurt lease deposit is held in U.S. dollars in an interest bearing account and is valued at \$31,975. The interest earned on the deposit is used to offset monthly bank charges. The Tokyo lease deposit is held in Japanese yen and does not accrue interest. The yen deposit decreased in value during the fiscal year ended June 30, 2001, below the current value due to an unfavorable currency exchange rate creating a loss of \$3,748. The Tokyo lease deposit has been reduced in value to \$201,853, and the total value of lease deposits for the Partnership for the fiscal year ended June 30, 2001, is \$233,829.

6. CHANGES IN GENERAL FIXED ASSETS

The following schedule presents the changes in the General Fixed Assets Account Group for the fiscal year ended June 30, 2001:

	Balance July 1, 2000	Acquired	Disposed	Balance June 30, 2001
Leasehold Improvements, Furniture and Equipment	\$2,110,896	\$187,089	\$99,503	\$2,198,482

7. OPERATING LEASE COMMITMENTS

The Partnership is committed under various operating leases for office facilities, vehicles, and equipment. Rental expense under operating lease agreements amounted to \$1,616,456 for the year. The Partnership expects to renew its office facility leases for the Richmond, Frankfurt, and Tokyo offices. A summary of minimum future obligations under these lease agreements as of June 30, 2001, follows:

Year Ending June, 30	Operating Lease Obligations
2002	\$ 1,611,960
2003	1,609,184
2004	1,574,515
2005 and later	366,735
Total future minimum rental payments	<u>\$ 5,162,394</u>

8. INSTALLMENT PURCHASES OBLIGATIONS

The Partnership has entered into an installment purchase contract to finance the acquisition of a motor vehicle. The original contract length was four years and the interest rate is 7.74 percent. Principal and interest payments for this commitment for fiscal years subsequent to June 30, 2001 are as follows:

Year	Principal	Interest	Total
2002	\$ 10,437	\$ 1,408	\$ 11,845
2003	12,136	80	12,216
Total	<u>\$ 22,573</u>	<u>\$ 1,488</u>	<u>\$ 24,061</u>

9. PENSION PLAN AND OTHER RETIREMENT BENEFITS

The Partnership is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2001, the Partnership's net pension obligation was \$670,864.

Plan Description

All full-time and part-time salaried employees of the Partnership participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. The Partnership does pay the member contribution, which amounted to \$308,814 (5 percent of total creditable compensation of \$6,176,274). In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Partnership contribution rate for the fiscal year ended June 30, 2001, was 5.22 percent on the same covered payroll of \$6,176,274. The amount contributed for that period was \$322,402.

10. RISK MANAGEMENT

The Virginia Economic Development Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage from loss from employee actions is \$50,000 per occurrence with a \$500 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

11. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 34

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Virginia Economic Development Partnership for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. Management will be required to provide a management’s discussion and analysis that gives readers an analysis of the Partnership’s overall financial position and results of operations including a comparison of current year results with the prior year. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government’s original budget as well as the final budget and actual results. The Partnership has completed its assessment of the changes required by this Statement and is fully prepared for implementation.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

L. I. Prillaman, Chair
Jean E. Clary, Vice-Chair

Frank Armstrong, III	James L. Keeler
Mary Rae Carter	Richard F. Neel, Jr., Esquire
Steve DelBianco	John W. Roberts
J. Thomas Fowlkes	M.G. "Pat" Robertson
Douglas B. Juanarena	Robert T. Skunda

Barry E. DuVal, Ex-Officio

John W. Forbes, Ex-Officio

Mark R. Kilduff, Executive Director

October 30, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the general-purpose financial statements of the **Virginia Economic Development Partnership** as of and for the year ended June 30, 2001, and issued our report dated October 30, 2001. Our auditor's report on the financial statements is contained in the Partnership's *Annual Report* for fiscal year 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

The Honorable James S. Gilmore, III
The Honorable Vincent F. Callahan, Jr.
Board of Directors
October 30, 2001
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condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 31, 2001.

AUDITOR OF PUBLIC ACCOUNTS

